

Message Text

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USIA-06 SAM-01 SAI-01 NIC-01 AID-05 COME-00 EB-07

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E.O. 11652: N/A

TAGS: ECON YO NATO

SUBJ: NATO REPORT ON RECENT TRENDS IN YUGOSLAV ECONOMY

REF: USNATO 0062

1. WHILE WE HAVE NOT SEEN FULL TEXT, SUMMARY AND CONCLUSIONS CONVEYED REFTEL LEAVE US WITH IMPRESSION THAT NATO ECONOMIC DIRECTORATE REPORT IS DISJOINTED, AND CHARACTERIZED BY OUT-OF-DATE INFORMATION, FACTUAL INACCURACIES, NON-SEQUITURS AND PESSIMISTIC (OFTEN FAULTY) CONCLUSIONS. IT MAKES NO MENTION OF IMPORTANT FACTORS SUCH AS GROWING AND PROFITABLE YUGOSLAV RELATIONSHIP WITH NEWLY WEALTHY OIL PRODUCER COUNTRIES, AND CONSTITUTIONAL REFORM OF SELF-MANAGEMENT SYSTEM.

2. FACTUAL INACCURACIES RELATE TO PERFORMANCE OF AGRICULTURE, TRADE, INVISIBLES AND BALANCE OF PAYMENTS, AS WELL AS TO POLICY REGARDING COUNTRY'S STRUCTURAL IMBALANCES.

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3. IN SPITE OF INTERMITTENT WEATHER DIFFICULTIES, AGRICULTURE PERFORMED SATISFACTORILY IN 1974, WITH THREE PERCENT REAL INCREASE IN OVERALL PRODUCTION INCLUDING RECORD WHEAT AND SUGAR BEET HARVEST AND GOOD CORN CROP. PERFORMANCE WOULD HAVE BEEN EVEN BETTER IF THERE HAD NOT BEEN VIRTUAL BAN ON BEEF EXPORTS TO EEC COUNTRIES THROUGHOUT MOST OF YEAR. GOVERNMENT GIVES DIRECT LARGE-SCALE AID NEITHER TO PRIVATE FARMERS NOR TO PUBLIC FARM SECTOR. HOWEVER, AGRICULTURAL DEVELOPMENT PLAN (GREEN PLAN), PROVIDES SUBSTANTIAL CREDITS FOR BOTH TYPES OF OPERATIONS.

4. 1973 BALANCE OF TRADE DEFICIT PRINCIPALLY REFLECTED COUNTRY'S CONTINUING MAJOR CAPITAL DEVELOPMENT EFFORT, AND INCREASING COST OF IMPORTED MATERIALS, NOT WEAKNESS OF ENGINEERING BRANCH. THREE BILLION DOLLAR DEFICIT IN 1974 PRINCIPALLY REFLECTS INCREASING COSTS OF IMPORTED MATERIALS (MAINLY FROM LDC'S) AND OF EQUIPMENT FROM WEST.

5. INVISIBLE EARNINGS DID NOT DECLINE IN 1974. THEY INCREASED BY OVER 15 PERCENT, REFLECTING GROWTH IN (A) REMITTANCES FROM YUGOSLAV WORKERS ABROAD, (B) EARNINGS FROM TOURISM, AND (C) EARNINGS FROM CONSTRUCTION AND ENGINEERING CONTRACTS AND OTHER SERVICES, PRINCIPALLY IN THE MIDDLE EAST. NEVERTHELESS, 1974 DEFICIT ON CURRENT ACCOUNT WAS \$900 MILLION TO \$1 BILLION.

6. STATEMENT THAT PAST MISTAKES CONCERNING STRUCTURAL IMBALANCES ARE BEING REPEATED IS INACCURATE. GOVERNMENT MONETARY AND FISCAL POLICY, AS WELL AS SELF-MANAGEMENT SYSTEM MECHANISMS ARE BEING DIRECTED AT REDRESSING THE IMBALANCES, WITH APPROPRIATE EMPHASIS ON DEVELOPMENT OF ENERGY, BASIC MATERIALS AND AGRICULTURE.

7. PRINCIPAL FAULTY OR QUESTIONABLE CONCLUSIONS RELATE TO EFFECTS OF INFLATION, SIGNS OF REORIENTATION TOWARD TRADE WITH EAST EUROPEAN COUNTRIES, AND POSSIBILITIES OF REVERSION TO AUTHORITARIAN ECONOMIC MANAGEMENT.

8. WE DO NOT SEE THIS YEAR'S 25 PERCENT INFLATION RATE AS A "DISASTROUS TREND ... CERTAIN TO ACCENTUATE REGIONAL LIMITED OFFICIAL USE

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DIFFERENCE ... A THREAT TO YUGOSLAV COHESION." INFLATION HERE HAS NOT ACCELERATED NEARLY AS MUCH OVER TRADITIONA (20 PERCENT) PACE AS IN MOST WESTERN COUNTRIES, AND REAL INCOMES HAVE RECORDED MODERATE GROWTH IN 1974. WE FIND NO EVIDENCE TO DATE OF SHARPENED REGIONAL DIFFERENCES OR LOCAL UNREST AS RESULT OF RISE IN INFLATION.

9. LATEST AVAILABLE STATISTICS (JANUARY TO SEPTEMBER 1974)

DO NOT SUPPORT NATO REPORT STATEMENT THAT TRADE WITH COMMUNIST COUNTRIES INCREASING. INSTEAD, THEIR SHARE OF OVERALL YUGOSLAV TRADE DECREASED SLIGHTLY DESPITE STEEP RISE IN PRICE OF OIL IMPORTED FROM USSR. MOREOVER, YUGOSLAV ENTERPRISES WERE JUST AS RELUCTANT IN 1974 AS PREVIOUSLY TO TAKE ADVANTAGE OF \$540 MILLION SOVIET CREDIT OF NOVEMBER 1972. MOST MARKED CHANGE IN TRADE AND OVERALL ECONOMIC ORIENTATION WAS TOWARD MIDDLE EASTERN AND OTHER LDC'S. TRADE WITH US ALSO ROSE, BY OVER 60 PERCENT.

10. LONG-RAGE PREDICTIONS CONCERNING FUTURE FORMS OF ECONOMIC MANAGEMENT ARE OF COURSE UNSAFE PROPOSITION, BUT, AT THIS TIME, TREND IS CLEARLY TOWARD ADVANCED FORMS OF DECENTRALIZED ECONOMIC DECISION-MAKING, BASED ON ENTERPRISE SELF-MANAGEMENT, RATHER THAN AUTHORITARIAN CONTROL.

11. FOLLOWING WOULD REPRESENT OUR CURRENT EVALUATION OF YUGOSLAV ECONOMIC TRENDS:

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12. YUGOSLAVIA COPEd BETTER THAN MANY NEIGHBORING COUNTRIES

WITH TROUBLED INTERNATIONAL ECONOMIC SITUATION, AND 1974 OVERALL ECONOMIC PERFORMANCE WAS QUITE IMPRESSIVE. WITH MOMENTUM OF INVESTMENT SPENDING UNDIMINISHED, PERSONAL CONSUMPTION RELATIVELY STRONG, AND EXPORT VOLUME HOLDING UP WELL THROUGH MOST OF YEAR, REAL GNP WAS UP 7 PERCENT, AND PRODUCTIVITY, EMPLOYMENT AND REAL INCOME RECORDED SATISFACTORY GROWTH. EXPLOSION IN WORLD OIL AND RAW MATERIAL PRICES HIT TRADE BALANCE HARD, BUT MODERATE INCREASE IN IMPORTANT FOREIGN EXCHANGE EARNINGS FROM YUGOSLAV WORKERS AND FROM TOURISM, RISE IN SALES TO OIL PRODUCER COUNTRIES, AND SUBSTANTIAL FOREIGN EXCHANGE SAVINGS DUE TO EXCELLENT DOMESTIC GRAIN HARVEST SERVED AS PARTIAL OFFSET. LONGER-TERM CREDITS FROM WESTERN AND MIDDLE EASTERN SOURCES COVERED VIRTUALLY ENTIRE CURRENT ACCOUNT DEFICIT, LEAVING HARD CURRENCY RESERVES AT NEAR ALL-TIME HIGH LEVELS.

13. AS YEAR DREW TO CLOSE, HOWEVER, YUGOSLAV POLICY-MAKERS FOUND GROWING REASON FOR CONCERN. EXPORTS BEGAN LIMITED OFFICIAL USE

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TO STAGNATE DUE TO ECONOMIC SLUMP IN PRINCIPAL WESTERN MARKETS AND CONTINUING EEC BAN ON BEEF SHIPMENTS. IMPORT BILL CONTINUED TO MOUNT, IN SPITE OF MILD RESTRAINTS IMPOSED IN AUGUST. PRESSURE ON BALANCE OF PAYMENTS INCREASED. INFLATION, TRADITIONALLY A PROBLEM, ACCELERATED TO OVER 25 PERCENT LEVEL. LIMITED ATTEMPTS AT MONETARY AND CREDIT RESTRAINT BROUGHT PARTIAL RECURRENCE OF UNCOMFORTABLE LIQUIDITY SHORTAGES OF EARLIER YEARS, WHILE SLOWING FOREIGN AND DOMESTIC DEMAND BROUGHT SOME CUTBACKS IN PRODUCTION AND GROWTH IN UNEMPLOYMENT.

14. IN FACE OF COMPLEX DOMESTIC PROBLEMS AND INCREASINGLY MURKY WORLD ECONOMIC SITUATION, GOY HAS OPTED FOR 1975 POLICIES SUFFICIENTLY RESTRICTIVE TO REDUCE BALANCE OF PAYMENTS DEFICIT AND KEEP INFLATION FROM WORSENING FURTHER -- BUT NOT SO RESTRICTIVE AS TO RISK SHARP BRAKE IN DEVELOPMENT, MAJOR UNEMPLOYMENT AND POSSIBLE RESULTING SOCIAL UNREST.

15. PROGRAM AIMS AT CUT IN SOCIAL AND OTHER NONPRODUCTIVE SPENDING, MAINTENANCE OF IMPORT VOLUME AT BARELY ABOVE 1974 LEVELS (THROUGH MEASURES TO DISCOURAGE FUEL AND CONSUMER GOODS IMPORTS), DOUBLING OF EXPORT VOLUME GROWTH TO 10 PERCENT (THROUGH GREATER EXPORT CREDIT AND OTHER INDUCEMENTS), AND CONCENTRATION OF PRODUCTION, INVESTMENT AND BORROWING FROM ABROAD ON NATIONAL PRIORITY AREAS (ENERGY, RAW MATERIALS, FOOD). GOVERNMENT PROJECTS REAL GNP GROWTH OF 6 PERCENT, AND REAL INCOME GROWTH OF 2 1/2 PERCENT.

16. AS ELSEWHERE, 1975 WILL BE DIFFICULT YEAR FOR YUGOSLAV ECONOMY, AND ATTAINMENT OF RELATIVELY AMBITIOUS GOALS WILL DEPEND HEAVILY ON STATUS OF VITAL TIES WITH WESTERN EUROPE AND U.S. IF MARKETS THERE FOR YUGOSLAV PRODUCTS AND WORKERS SHRINK SIGNIFICANTLY DUE TO ECONOMIC OR POLITICAL FACTORS, AND IF SOURCES OF CREDIT, TECHNOLOGY AND EQUIPMENT DRY UP, YUGOSLAV ECONOMIC DEVELOPMENT AND STABILITY WILL BE THREATENED, AND GRADUAL TURN TOWARD RELIANCE ON USSR AND OTHER COMMUNIST COUNTRIES -- TRADITIONALLY CONSIDERED A POOR SECOND CHOICE -- IS POSSIBLE.

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17. IF TIES TO WEST REMAIN FULLY OPERATIVE, YUGOSLAV ECONOMY SHOULD AGAIN PERFORM REASONABLY WELL. SIGNIFICANT INCREMENTAL BENEFITS FOR INTERNATIONAL ACCOUNTES MAY BE EXPECTED FROM SHARP INCREASES IN EXPORT OF GOODS AND SERVICES TO MIDDLE EAST AND OTHER LDC'S, SIZEABLE ADJUSTMENT IN DINAR VALUE, AND PROSPECTIVE AVAILABILITY OF RATHER SUBSTANTIAL CREDITS FROM OIL PRODUCERS AND INTERNATIONAL ORGANIZATIONS.

18. ON DOMESTIC SCENE, NEW CONSTITUTIONAL SYSTEM OF HIGHLY DECENTRALIZED ECONOMIC MANAGEMENT BASED ON VOLUNTARY SOCIAL AGREEMENTS AMONG REGIONS AND ENTERPRISES WILL NEED TIME TO TAKE HOLD, AND IS IN ANY CASE NOT LIKELY TO BE CONDUCIVE, OVER SHORT-TERM, TO SHARPER CONCENTRATION OF NATIONAL RESOURCES SOUGHT IN GOVERNMENT'S PROGRAM WHAT THIS INNOVATIVE AND COMPLEX SYSTEM MAY EVENTUALLY ACCOMPLISH REMAINS TO BE SEEN, BUT FOR 1975, TRADITIONAL GOVERNMENTAL, MONETARY AND FISCAL POLICIES AND ENTERPRISE ACTIVITY WILL PROBABLY BE RELIED ON TO KEEP PRODUCTION AND INVESTMENT PROGRAMS GOING AND AVOID OVERSPENDING AND DUPLICATION.

19. EMBASSY FAILS TO UNDERSTAND WHY NATO PREPARES ANALYSES OF ECONOMIC TRENDS IN YUGOSLAVIA, WHEN GOOD QUALITY ANALYSES ARE AVAILABLE ON A REGULAR BASIS FROM IMF, OECD, IBRD AND OTHER SOURCES.

20. IF IT IS NECESSARY FOR NATO TO ENGAGE IN THIS ACTIVITY, IT SHOULD DO SO WITH MORE CARE AND BETTER EXPERTISE.

21. WE SUGGEST US MISSION POINT OUT THAT YUGOSLAVS EXTREMELY SENSITIVE TO INACCURATE AND BIASED INFORMATION AND CRITICISMS REGARDING POLITICAL AND ECONOMIC TRENDS, AND THAT SURFACING OF INFORMATION AND CONCLUSIONS USED IN ECONOMIC DIRECTORATE RPORT WOULD TRIGGER ANGRY REACTION.

22. EMBASSY HOPES THAT PRACTICE OF PREPARING ANALYSES OF
YUGOSLAV ECONOMIC TRENDS CAN BE DISCONTINUED.
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